

Republic of the Philippines - EUROBONDS

Denominated in USD and EUR

HSBC's authorised sales staff must go through this document with you before you decide to place your funds in the above name investment. It does not constitute an offer to sell or distribute securities and is made available for information purposes only. This document is prepared to assist you in understanding what these Bond. We recommend that you keep this document for future reference.

This reference material refers to **Republic of the Philippines – Eurobonds** (the “bonds”).

Please find the following documents to assist you in your decision to invest in these Bonds:

1. Key Features Document
2. Important Information on BSP Circular 392 and Related Regulations
3. Important Information on SEC Memorandum Circular 14
4. Risk Disclosure Statement
5. Customer Declaration
6. Customer Acknowledgement
7. Buy-Order Form

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Republic of the Philippines – Eurobonds : Key Features Document

This **Key Features Document** is designed to highlight what HSBC considers to be the key points you should know before you decide to invest in the **Republic of the Philippines – Eurobonds** (the “bonds”)

PRODUCT DETAILS

- These US and Euro Dollar-denominated Bonds are issued by the Republic of the Philippines government. The Philippine government has a credit rating of BB- per Standard and Poor’s (S&P), an international credit rating agency.
- These Bonds are unconditional obligations of the Republic of the Philippines and backed by the full taxing power of the National Government.
- These Bonds are available in the secondary market, and may be subject to a minimum trading lot size and a bookbuilding process.
- Coupons are fixed and paid every semi-annually.
- These Bonds are subject to the requirements of the Bangko Sentral ng Pilipinas (BSP) Circular 392 and its related regulations, including the rules governing the Over-the-Counter (OTC) Fixed Income Market issued by the Securities Exchange and Commissions (SEC) Memorandum Circular 14.
- For Bonds with remaining tenors of ten (10) years or less, the product risk rating is “3” or medium risk*, and is likely to be suitable for an investor with a risk attitude of “Balanced” or above.
- For Bonds with remaining tenors of more than ten (10) years, the product risk rating is “4” or medium to high risk**, and is likely to be suitable for an investor with a risk attitude of “Adventurous” or above.
- Interest income/yield/gains from the Bonds are subject to withholding tax and such other taxes as may be imposed under Philippine tax laws and regulations. These shall be for your account.

BENEFITS in BOND INVESTMENTS

- **Regular income** : Investors receive regular income generated by the coupon payments throughout the life of the bond
- **Higher return** : Bond yields are likely to be higher compared to regular bank deposit rates
- **Potential capital gain** : If the bond was purchased at a discount, then investors benefit from a capital appreciation if they hold the bond till maturity since the proceeds will be paid at par. This may also apply to bonds purchased at a premium where the investor sells the bonds in the secondary market, where the selling price is higher than the original purchase price.

RISK DISCLOSURE

- **Market Risk.** Bonds may be subject to fluctuations in value and other risks inherent in investing in the securities. The value of a bond may fall as it may rise due to numerous factors, including, but not limited to, variations in the frequency and magnitude of changes in interest rates and inflation outlook. The value of the bonds may increase or decrease throughout their tenor.
- **Interest Rate Risk.** Investors are exposed to the movement of interest rates whenever their bonds are sold prior to maturity. It is possible that the value of the bonds held may be worth less than the original purchase price due to changes in market interest rates. As interest rates move upwards, the value of the bonds generally falls. Moreover, the longer the tenor of the bonds, the more sensitive the bonds will be to interest rate changes.

* Product Risk Level : Medium

- The price volatility of the product is medium. Active market monitoring and management may be required to control the relevant risks.
- This product may be suitable for investors who are happy to accept medium to high level of investment risk.

** Product Risk Level : Medium to High

- The price volatility of the product is medium to high. Customers may need to realise immediate loss of certain portion of the capital. Careful selection of product and active market monitoring and management may be required to control the relevant risks.
- This product may be suitable for investors who are happy to accept medium to high level of investment risk

- **Price Risk.** Bondholders may purchase a bond either at a discount, par or premium. For secondary market trading where bonds are sold at a premium, investors should consider the purchase price, the par value at maturity, the accrued interest that will be paid and coupon that will be received over the holding period. For bondholders who intend to sell the bonds prior to maturity should take into account the original purchase price versus the selling price.
- **Price vs Yield to Maturity.** Bonds may be purchased at a discount or a premium, where the purchase price has an inverse relationship with the yield to maturity (YTM). Investors buying bonds at a discount will have a higher YTM versus buying the bonds at a premium will result to a lower YTM.
- **Liquidity Risk.** HSBC does not guarantee it will buy the Bonds at any pre-agreed price or pre-agreed date in case the holder decides to unload the Bonds prior the maturity date. The Bank will repurchase the bonds at the prevailing market price, and may subject to the minimum trading size and a bookbuilding process.
- **Credit Risk.** The holder of the Bonds bears the risk of the Issuer. Credit ratings are assigned on the bond issuer's financial strength and past record of debt repayment. Further, investments are not covered by the Philippine Deposit Insurance Corporation (PDIC) and are not guaranteed by HSBC. There is also the possibility that the Issuer will be unable to make coupon and/or principal payments.
- **Reinvestment Risk.** The investor faces the risk that coupons received may be invested at yields lower than the yield at time of purchase.
- **Exchange Risk.** An investor, the majority of whose income and assets are not denominated in the currency of the investment, will be subject to fluctuations in exchange rates which could positively or negatively affect the investor's return upon conversion into his/her local currency.

INVESTOR COMMITMENT

When you place your funds in the **Republic of the Philippines – Eurobonds** (the “bonds”), you will be required to make a series of confirmations and acknowledgements, including the following:

- You have read and understood this document, including the risks of investing in the Bonds as explained in the section “**Risk Disclosures**”, and the regulatory requirements or framework governing the purchase and sale of the Bonds.
- This investment is likely to be suitable for investors whose specific attitude to investment risk is “Cautious” or “Balanced”, depending on the tenor.
- You understand that this document is not intended to provide and should not be relied upon for tax, legal or accounting advice, investment recommendations or credit worthiness or other evaluation of the Issuer. Investors in this product should consult their tax, legal, accounting and/or other advisors.
- You are comfortable to place your funds in this investment for the entire investment tenor.
- You are confident that you will not need access to the amount invested during the investment period and that you have sufficient liquid emergency funds to meet unforeseen circumstances.
- You should avoid excessive investment in a single type of investment, with regard to its total proportion of your overall portfolio, in order to guard against overexposure to any investment risks.

OTHER INFORMATION

Minimum investment amount

Regular Bookings : USD/EUR 50,000, in multiples of USD/EUR10,000

Via Bookbuilding : USD/EUR10,000, in multiples of USD/EUR10,000

Trading Dates

Daily, until 3:00pm (Manila Time)

IMPORTANT INFORMATION

BANGKO SENTRAL ng PILIPINAS (BSP) CIRCULAR 392 and its RELATED REGULATIONS

The Bangko Sentral ng Pilipinas (BSP), in July of 2003, issued **Circular No. 392, Series of 2003**, which requires all securities sold by banks on a “**without recourse basis**” (i.e. the bank has no liability to the buyer of securities in paying the obligation due on the security) to be delivered to the buyer/purchaser of securities through any of the following means:

- (a) **If the security is evidenced by a certificate of indebtedness**, the certificate must be transferred in the name of the purchaser/buyer and physically delivered to the purchaser/buyer or to his designated BSP-accredited third party custodian.
- (b) **If the security is immobilized or dematerialized** (i.e. the security is not evidenced by a certificate of indebtedness and instead a security account is created in the electronic books of the registry in the name of the purchaser/buyer or his designated custodian):
 - i. The security must be delivered by book-entry transfer to the appropriate securities account of the buyer in the registry of said securities, which must be evidenced by a confirmation in writing by the registrar to the buyer. The confirmation of sale or document of conveyance shall be physically delivered by the seller or dealer to the buyer, or
 - ii. The security must be delivered by book-entry transfer to the appropriate securities account of the BSP-accredited third party custodian designated by the buyer/purchaser in the registry of said securities, which must be evidenced by a confirmation in writing by the registrar to the said BSP-accredited third party custodian, who shall in turn issue to the securities owner a delivery receipt acknowledging receipt of the securities.

Circular 392 is part of a package of reforms to support the development of the domestic capital market through enhanced investor protection and greater market transparency. It provides for a more defined role and responsibilities for the custodians and registrars and a stricter supervision and regulation thereof by the BSP. It aims to provide the client with the following benefits:

- a. Full control and possession of the securities purchased;
- b. Independent validation of the existence of securities purchased;
- c. Regular reporting of securities holdings; and
- d. Capability to choose most competitive counter-parties in case of sale, pledge, transfer and lending of securities.

Moreover, Circular No. 392, which amends CBP Circular 437-74, seeks to address the changes in the legal framework brought by the developments in the market, i.e. where purchase of securities may be evidenced not only by transfer of certificates but also by electronic book-entry transfer of ownership in the books of the registrar for said security.

As an investor, therefore, of securities which is dematerialized or scripless, you have the **option** to require your dealer/broker to deliver the securities to you by requiring them to have the securities registered directly in **your name in the registry** of said securities **or** by requiring them to have the securities registered in the name of the **BSP-accredited third party custodian** of your choice who in turn will credit your securities account with them.

The **registry** is a BSP-accredited bank or non-bank financial institution (NBFI) designated or appointed by the Issuer to (1) maintain the securities registry book, (2) record the (a) issuance of the securities and (b) subsequent transfer of ownership thereof; and (3) issue registry confirmation to the buyers/holders of security.

The **custodian**, on the other hand, is a BSP-accredited bank or NBFI designated by the investor to safekeep the security by allowing it to hold title to the security, either in a nominee or trustee capacity, to enable it to perform the following administrative functions/services related to investing in a security or various securities: i) Mark to market valuation of a security that will enable the client to know the value of his investment at any period in time; ii) compute and collect the interest due on the security; iii) render statements on outstanding securities under safekeeping; iv) represent the client (per its instruction) in the events of default or breach of contract of the issuer; and v) lend the security of the clients as “agent” that will enable the client to earn additional income on the security.

The registrars and custodians underwent a rigorous evaluation process by the BSP to determine whether they have the following: i) adequate capital to cover for potential operating risks related to performing its custody functions; ii) a competent management team to manage the company with responsibility and proper corporate ethics; iii) a robust technology system to operate the custody business efficiently; and iv) a favorable track record or significant experience in the custody business or related business. They will also undergo regular audit by the BSP to ensure that they comply with BSP rules and regulations and will be subject to penalties and administrative sanctions for any violation thereof.

IMPORTANT INFORMATION

BANGKO SENTRAL ng PILIPINAS (BSP) CIRCULAR 392 and its RELATED REGULATIONS

As of date, BSP has accredited the following registrars and custodians: Bank of the Philippines Islands, Citibank N.A., Deutsche Bank, The Hongkong and Shanghai Banking Corporation, Philippine Depository and Trust Corporation, and Standard Chartered Bank.

The Registry of Scrippless Securities (RoSS) operated by the Bureau of Treasury (BTR), which is acting as a registry for government securities, is automatically accredited as a securities registry. However, the BTR, as registry, cannot act as custodian of government securities pursuant to the opinion of the Secretary of Justice rendered on 17 January 2005 due to an irreconcilable conflict of loyalties that is anathema to agency if the same institution were to act as registrar and custodian at the same time.

The custodian shall render periodic reports on your account balances on a quarterly basis, or at such interval as you may require. Moreover, the custodian shall issue to you a confirmation of any transfer of ownership as it occurs, in either electronic or printed forms. Said reports shall be delivered/mailed directly at your address unless you give a written instruction directly to the custodian to deliver the said reports to your designated person/entity. You are, however, required to acknowledge in the written instruction that you are designating another person/entity to receive the periodic reports from the custodian, notwithstanding contrary advice of the BSP.

The above-mentioned arrangements may change once the BSP issues more detailed implementing rules and guidelines to the above-mentioned circulars. Your selling bank must update you if and when these developments occur.

IMPORTANT INFORMATION

SECURITIES and EXCHANGE COMMISSION MEMORANDUM CIRCULAR 14

The Securities and Exchange Commission (SEC), in October 2006, issued Circular 14 governing the rules in the Over-the-Counter (OTC) Market to introduce investor protection, elevate market integrity and improve market transparency for the development of the capital market. This Circular will affect new purchases and sale of Philippine Peso and Foreign Currency Denominated Fixed Income instruments.

The Circular segregates the duties of dealers and brokers, where the former acquire and trade securities for their own account, and the latter buy and sell securities for the account of others. Investors who opt to participate as a qualified investor can directly buy or sell securities in the OTC Market, subject to the SEC requirements for classification as a qualified investor. Investors who opt not to participate as a qualified investor are classified as Public Investors, and must have to appoint a broker, duly licensed by the SEC, if they wish to buy or sell securities in the OTC Market.

A quotation system or trading platform is also a requirement under the Circular. The quotation system is used by dealers or brokers to make known to others their interest in transactions in any security, including offers to buy or sell a security at a stated price or otherwise, or invitations of offers to buy or sell, either for the account of customers or for the principal account. Investors are required to provide a quotation, either a bid or offer at a specified price, with respect to a security. This quotation system is owned and operated by the Philippine Dealing and Exchange Corporation (PDeX). At present, only Philippine Peso trades are coursed thru the Exchange.

Further, the Circular also provides for all trades to be handled in Delivery-versus-Payment (DvP) mode, which is a global standard mode of settlement for securities transactions wherein there is a simultaneous exchange of the seller's securities and the buyer's cash.

The following documents will be needed to allow The Hongkong and Shanghai Banking Corporation Limited-Philippine Branch (HSBC), in our capacity as a Broker Participant, to continue to process your transactions as a public investor:

1. **Letter of Appointment**
This document appoints HSBC as your Broker to buy or sell securities on your behalf.
2. **Bank Authorization Letter** (not applicable for ROP Eurobonds at the moment)
This document specifically designates your chosen bank account for different transaction types (including Government Security trades) through the Philippine Dealing and Exchange Corporation (PDEX). This also signifies the Cash Settlement Bank's, in this case, HSBC's, acceptance of the terms of the Authority to debit/credit and grants the authority necessary to effect instructions to cause the debiting/crediting of relevant accounts.

Note that HSBC has limited its services as Cash Settlement Bank exclusively to HSBC clients and only to those trades done with HSBC as the customer's duly-appointed Broker.

RISK DISCLOSURE STATEMENT

Gentlemen:

Similar to other financial transactions, investments in **Republic of the Philippines Eurobonds** may provide considerable benefits and involve a variety of significant risks.

Before entering into any investment, you should carefully consider whether the transaction is appropriate for you in light of your financial objectives and resources, investment experience, attitude to risk and other relevant circumstances. Moreover, you should ensure that you fully understand the nature and extend of your exposure to risk and loss.

In general, all investment activities involve risks which include, among others, unanticipated adverse market developments (financial, economic or political), credit and enforcement risks (counterparty/issuer default or changes in legislature), and liquidity risk.

As in any financial transaction, you should ensure that you understand the inherent risks and investor requirements applicable to you. You should also consider the legal and tax implications before you invest.

In entering into any investment activity with, or arranged by, us or any of our subsidiaries/affiliates, you should also understand that **HSBC** is acting solely in the capacity of an arm's length contractual counterparty and not in the capacity of your financial adviser or fiduciary unless **HSBC** has so agreed in writing and then only to the extent so provided.

THIS BRIEF STATEMENT DOES NOT PURPORT TO DISCLOSE ALL OF THE RISKS OR OTHER RELEVANT CONSIDERATIONS OF ENTERING INTO BOND INVESTMENT ACTIVITIES. YOU SHOULD REFRAIN FROM ENTERING INTO ANY SUCH ACTIVITY UNLESS YOU FULLY UNDERSTAND ALL SUCH RISKS AND HAVE INDEPENDENTLY DETERMINED THAT THE ACTIVITY IS APPROPRIATE FOR YOU.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
Philippine Branch

**CUSTOMER DECLARATION
REPUBLIC of the PHILIPPINES EURO BONDS**

***Republic of the Philippines – Eurobonds
(the “Bonds”)***

I/we understand and accept the following related to the above named investment :

1. There are differences between a regular time deposit and investments to corporate bonds.
2. The benefits, risks and investor commitment associated with the Bonds.
3. The regulatory framework in which these Bonds are traded and operate in.
4. The fees associated with my/our Bonds investment.
5. I/We fully understand the explanations given by the Relationship Manager or Marketing Officer.
6. My/Our queries and concerns have all been addressed satisfactorily.
7. I am/We are aware of or have been offered appropriate alternative products that may meet my/our needs.
8. I am/We are comfortable on placing my/our funds for the entire duration of the Bonds, if necessary.
9. I am/We are confident that I/we will not need access to the amount invested during the entire term of the Bonds and that I/we have sufficient liquid emergency funds to meet unforeseen circumstances.
10. I/We have made the decision to place my/our funds in the Bonds based on my/our own independent analysis and judgment without relying on any representation or advice, which may be considered to be given by the bank or its affiliates.
11. A Risk Profiling Questionnaire was presented to me/us to complete to determine my/our general and specific risk attitude. I/We shall indemnify HSBC from any liabilities which will arise from non-signing of said document or if there is a mismatch in risk tolerance against the suggested product risk category.

**CUSTOMER ACKNOWLEDGEMENT
REPUBLIC of the PHILIPPINES EURO BONDS**

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED – Philippine Branch

Customer Number		Date (dd-mmm-yy)	
Account Name			

Gentlemen:

I / We hereby acknowledge that I / we have received, read and fully understand the All-in-One Document relating to the **Republic of the Philippine Eurobonds**, which HSBC has provided me/us.


I / We further acknowledge that I / we have made a decision to invest in the above investment after having thoroughly read, understood and independently evaluated the following:


1. Key Features Document containing the following information:
 - Product Details, which includes explanation on the following bond features:
 - a. Coupon
 - b. Bond Yield / Price
 - c. Maturity Date
 - d. Net Settlement Price
 - e. Taxation
 - Risk Disclosure
 - Investor Commitment
2. Important Information on BSP Circular 392 and its Related Regulations
3. Important Information on SEC Memorandum Circular 14
4. Risk Disclosure Statement
5. Letter of Appointment
6. Limited Special Power of Attorney
7. Letter of Autorisation
8. Customer Declaration
9. Buy-Order Form

Yours sincerely,

Customer Signature over Printed Name 

Customer Signature over Printed Name 

Customer Signature over Printed Name 

Customer Signature over Printed Name 

**BUY-ORDER FORM :
FOREIGN CURRENCY FIXED INCOME INSTRUMENTS**

CUSTOMER DETAILS

Account Name			
Customer Number		Order Date (dd-mmm-yyyy)	

APPLICATION

I/We request you to place the following **BUY-ORDER** (the "ORDER") with your Treasury Department:

Type of Securities	<input type="checkbox"/> Republic of the Philippines Eurobonds ; <input type="checkbox"/> PSALM Bonds due 2019 ; <input type="checkbox"/> Others : _____		
Currency	<input type="checkbox"/> USD <input type="checkbox"/> EUR	Volume	
Ceiling Bond Price		Yield to Maturity	Net Settlement Price / Amount
Settlement Date (dd-mmm-yyyy)		Coupon Rate	Maturity Date (dd-mmm-yyyy)
SOURCE of FUNDS: Debit Account Number	COUPON PAYMENT / MATURITY INSTRUCTIONS: Credit Account Number		

For Orders via Bookbuilding: Please tick one of the following:

This ORDER is good until fulfilled. This ORDER is good until _____
(specify a date : dd-mmm-yyyy)

CUSTOMER DECLARATION

I/We hereby declare that the documents indicated in the Customer Acknowledgment have been provided and that I/we have been advised to read, understand the same and to take independent advice if I/we wish. Further, I/We understand and agree that the execution of this BUY ORDER (the "ORDER") shall be subject to the following terms and conditions:

- HSBC shall execute the ORDER based on the Ceiling Bond Price quoted above or at a better price on the Order Date or, if subject to a bookbuilding process, within the period mentioned above.
- For orders that meet the minimum trading size, if HSBC is unable to execute the ORDER at the price quoted above on the Order Date, the ORDER will be deemed cancelled and I/we will need to submit to HSBC a new BUY-ORDER.
- If I/we have instructed HSBC to include the ORDER in a bookbuilding process, I/we understand and agree that the ORDER will be executed only if the minimum booking size based on the total orders received is reached.
- Once I/we have submitted the ORDER to HSBC, I/we cannot withdraw or cancel it.
- Should the ORDER be accommodated, I/we authorize HSBC to debit the net settlement amount from my/our Debit Account identified above to serve as payment for the purchase price for the securities.
- Upon execution of the ORDER, I/we will receive from HSBC a written confirmation stating the final terms of my/our investment.
- For Issues with tenors or remaining tenors of more than two (2) years, a USD50 (for USD-denominated bonds) or EUR40 (for EUR-denominated bonds) annual service fee shall be levied on my/our investment and will be charged on the 1st coupon payment date if the next coupon payment date is at least 2 weeks from now; otherwise, the fee will be debited on the 2nd coupon payment date, and every year thereafter. The fee will be debited from the credit account number quoted above.

Customer Signature over Printed Name



Customer Signature over Printed Name



Customer Signature over Printed Name



Customer Signature over Printed Name



FOR BANK USE ONLY:

I hereby declare that this document, including the option to be included in the bookbuilding process, has been explained to the customer; and that the customer has been advised to read the same, ask questions and to take independent advice if he so wishes. For PVC/HRS, I confirm that I offered the customer the opportunity to be accompanied by a responsible relative or close friend. Customer/s was/were accompanied by _____, _____, to assist them in their investment decision on this product.
Name of Relative / Friend Relationship to the Customer

Subject PVC/HRS has declined the opportunity to be accompanied by someone close to him/her for the following reason/s --->

Name of Sales Staff:	Signature of Sales Staff	Branch	Date (dd-mmm-yyyy)
For PVC / HRS : TL or RBH or ARM to complete cells to the right --->	TL / RBH / ARM Name and Signature:		